CANADIAN EXPORT CEGO GAS & OIL LTD.

Annual Report

APRIL 30TH, NINETEEN SIXTY-EIGHT

THE YEAR'S HIGHLIGHTS

		1967-68	1966-67
PRODUCTION (Net after royalties):			
Oil Production — Annual . . . . Barrels		443,029	425,690
— Daily Average . . . . Barrels		1,214	1,166
Gas Production — Annual . . (Billion Cubic Feet)		6.562	6.867
— Daily Average (Million Cubic Feet)		18	19
EARNINGS:			
Gross operating income less royalties paid:			
Crude oil sales	$	1,121,155	1,064,725
Natural gas sales	$	986,878	1,024,829
Royalty income	$	182,324	169,793
	$	2,290,357	2,259,347
Cash flow from operations	$	1,024,121	1,018,319
Per share	¢	13	13
Net earnings (loss)	$	299,762	(98,425)
Per share	¢	4	–
EXPLORATION ACTIVITY:			
Exploratory wells drilled (gross):			
Oil		–	3
Gas		4	1
Dry		6	14
		10	18
Expenditure on land acquisition and exploratory surveys	$	866,072	116,807

ANNUAL REPORT 1968

Head Office
736 - 8th Avenue S.W., Calgary, Alberta

DIRECTORS	AUGUST F. BECK, *Calgary*
	F. R. BURTON, *Toronto*
	JOHN DRYBROUGH, *Winnipeg*
	FRANCIS KERNAN, *New York*
	PLATO MALOZEMOFF, *New York*
	MILTON H. MANDEL, *New York*
	FRANCIS E. RINEHART, *New York*
	FRANZ SCHNEIDER, *New York*
	H. W. TRIPP, *New York**
	*Elected March 6
OFFICERS	AUGUST F. BECK, *President and General Manager*
	PAUL C. EVANS, *Vice-President — Production*
	W. P. HANCOCK, *Vice-President — Exploration*
	DEREK N. WALKER, *Secretary-Treasurer*
	FRANCIS E. RINEHART, *Assistant Secretary*
SUBSIDIARIES	CANEX GAS LTD.
	BLUEWATER OIL & GAS LIMITED
	CEGO MINERALS LTD.
	NORTH DAKOTA ROYALTIES LTD.
SHARES LISTED	AMERICAN STOCK EXCHANGE, *New York*
	MIDWEST STOCK EXCHANGE, *Chicago*
	THE TORONTO STOCK EXCHANGE
TRANSFER AGENTS	CROWN TRUST COMPANY, *Calgary and Toronto*
	HARRIS TRUST AND SAVINGS BANK, *Chicago*
	BANKERS TRUST COMPANY, *New York*
REGISTRARS	CROWN TRUST COMPANY, *Calgary and Toronto*
	AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago*
	THE BANK OF NEW YORK, *New York*
AUDITORS	PEAT, MARWICK, MITCHELL & CO., *Calgary*

TO THE SHAREHOLDERS:

The past year was highlighted by an increased emphasis on exploration activity, both on Company farmout lands in northwestern Alberta, and on lands acquired in other new areas.

In addition two gas plants which went into production this year will improve the Company's annual revenue by approximately $125,000.

EXPLORATION

Activities in northwestern Alberta continue to dominate the Company's exploration program. Out of ten exploratory wells drilled on our acreage during the past year, eight were on our farmout lands in this area. Seven of these were drilled by the farmees at no cost to the Company. Two gas discoveries resulted from this drilling. At the same time the farmees continued their programs of seismic investigations.

In addition to these CEGO wells a Keg River oil discovery by an adjoining land owner 3 miles from one CEGO reservation in the Steen area could be of important significance to the Company. The Keg River is the main productive zone in the Rainbow and Zama fields. Further seismic surveys are currently underway on our lands in the Steen area and we anticipate follow-up drilling as may be warranted. Certain other of the farmout blocks are slated for additional exploration surveys and drilling during the coming winter work season.

The two other exploratory wells drilled during the past year were both completed as gas discoveries. A follow-up to one of these discoveries in the Strachan area is now being drilled.

The Company's exploratory studies have led to activity in other areas of Alberta. At Hutton in the southern part of the province a block of 86,000 acres has been acquired under seismic option and will be drilled as warranted. Acreage has been acquired and a well is now drilling in the Fox Creek-Clark Lake Area. A Crossfield zone gas test is planned on pooled acreage south of Calgary. Seismic options have been granted to other companies on CEGO interest acreage in the Wood River area of Central Alberta and at Fairacres north of Peace River town.

The overall exploratory program during the ensuing year contemplates participation in drilling approximately 15 wildcat wells in addition to continuing an active exploration survey program.

OIL AND GAS PRODUCTION

Oil production rose 4% to 443,000 barrels, the highest in Company history. Main reason for the increase was the continued success of development of the Swan Hills field, where two more successful wells were drilled.

Gas production declined 4% to 6.6 billion cubic feet, due to lower market demand. Three successful gas development wells were drilled to fulfill contract obligations, two at Bindloss and one at North Atlee.

Two gas units in which CEGO is a participant went into production during the year. East Crossfield produces gas, sulphur and condensate, and Ghost Pine produces gas and condensate. CEGO's share of the annual sales from these two plants is expected to approximate $125,000.

The Kaybob South recycling plant, presently under construction, will recover sulphur and natural gas liquids. The Company's interest will be determined upon completion of the development drilling now in progress.

FINANCIAL

During the past year the Company's gross income was $2,290,000 and cash flow $1,024,000, both slightly higher than last year. Net earnings increased to $300,000, compared with a loss of $98,000 last year.

CORPORATE

The Company is pleased to announce the appointment of Mr. H. W. Tripp to the Board. Mr. Tripp is Chairman of the Investment Committee of the University of Rochester and Investment Consultant to the First National City Bank of New York, as well as being a Director of numerous other corporations.

GENERAL

The approval by Canadian and United States authorities permitting exports of oil and gas to the western and central areas of the United States is encouraging the continued growth of the Canadian petroleum industry. We are most optimistic about the ability of our industry to discover new oil and gas reserves to meet the increasing market demand.

We do not share the apprehension being expressed by a portion of the industry regarding the impact of new Oil Sands projects. Any such development will fall under the restrictions recently promulgated by the Alberta government. Such restrictions, combined with the projected increasing demand for Western Canada's oil, will compensate for additional production from the Oil Sands, which reportedly cannot be put into production before 1974. We believe the existence of such a demonstrated continental source for oil will further encourage potential customers to commit to a Canadian supply, and therefore actually increase exploration incentive.

The Directors wish to express their appreciation to the Shareholders for their interest in the Company and to the employees for their loyalty and personal interest in the Company's activities.

On behalf of the Board,

A. F. Beck

A. F. BECK
President

June 28, 1968.

GAS PRODUCTION

CEGO's gas production for the past year decreased by 4% to 6.6 billion cubic feet. This decrease is due to lower requirements by the purchasers from the Company's fields and is not a function of the ability of these fields to deliver their contractual commitments. The delay in the granting of approval for the Great Lakes pipeline extension project contributed greatly to the minimum demand requirement for Trans-Canada Pipelines, our main purchasers.

Three development wells were drilled to maintain deliverability to Trans-Canada Pipeline — two at Bindloss and one at North Atlee.

EAST CROSSFIELD (CEGO'S interest – 0.5%)

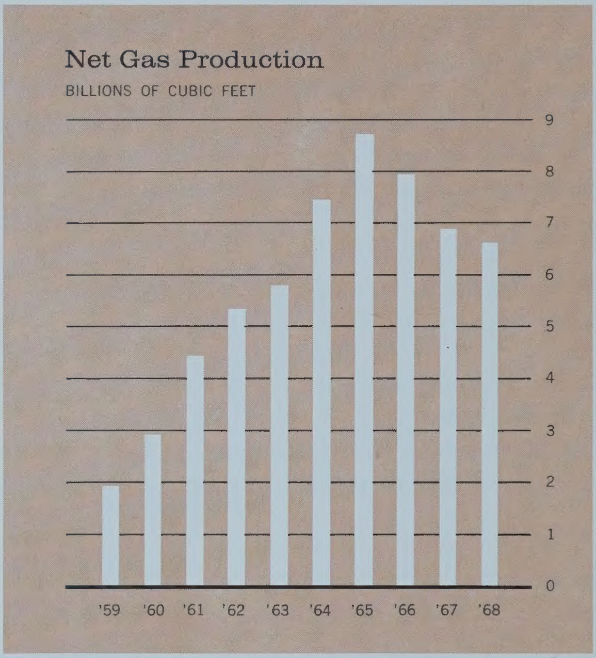
The East Crossfield D-1 Unit sour gas plant commenced operation in February, 1968. This plant is processing 100 million cubic feet per day of raw field gas, which yields 1,300 long tons of sulphur, 380 barrels of condensate, and 40 million cubic feet of saleable pipe line gas per day.

GHOST PINE (CEGO'S interest – 0.8%)

The Ghost Pine Unit No. 1 became effective in November 1967. The Unit is delivering approximately 50 million cubic feet per day with some condensate.

KAYBOB SOUTH (CEGO'S interest – 0.7%)

The Kaybob South Gas Unit No. 1 is constructing a $24 million sulphur recovery plant and drilling 27 development wells. The plant is expected to go on stream in November 1968, and is designed to produce 1,050 long tons of sulphur and 17,700 barrels of liquids per day. The Company's interest is subject to confirmation by drilling.



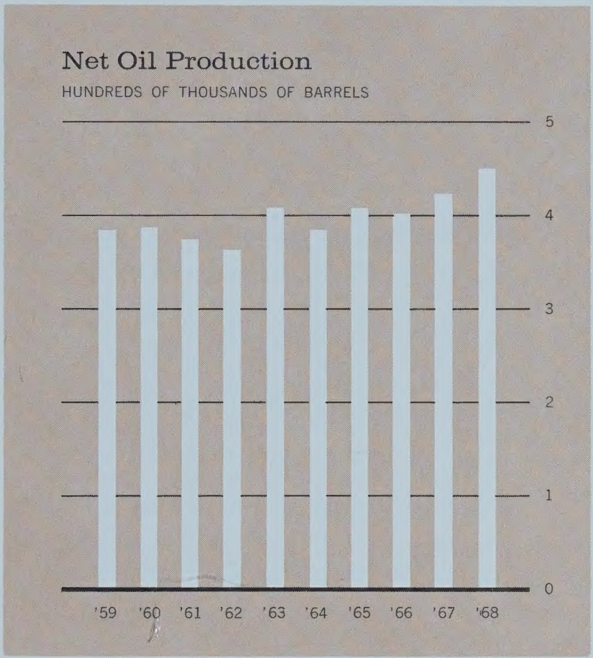
Net Gas Production by Fields

(After Royalties)

	(Billion Cubic Feet) 1968	1967	1966	1965	1964
Steveville	2.115	2.124	3.000	3.762	3.031
Bindloss	1.706	1.769	1.742	2.003	1.776
Hilda	1.395	1.501	1.500	1.515	1.445
Sedalia	0.348	0.398	0.422	0.433	0.412
Atlee-Buffalo-Jenner	0.289	0.321	0.337	0.331	0.245
Wood River	0.276	0.277	0.329	0.312	0.285
Countess Duchess	0.109	0.118	0.128	0.133	0.165
Ontario	0.099	0.115	0.114	—	—
Braeburn (Saddle Hills)	0.097	0.218	0.211	0.046	—
Ghost Pine	0.071	—	—	—	—
Crossfield-Turner Valley	0.038	0.026	0.022	0.023	0.021
East Crossfield D-1	0.019	—	—	—	—
Other	—	—	0.140	0.152	0.086
	6.562	6.867	7.945	8.710	7.466

OIL PRODUCTION

During the past year, CEGO'S net oil production increased 4% to 443,029 barrels, a new high for the Company.



CROSSFIELD, ALBERTA

The water injection in this secondary recovery project was increased and the subsequent flood response has halted the production decline rate of the past few years.

SWAN HILLS, ALBERTA

Two successful development wells were completed making a total of eleven producers. These wells have now been included in two water flood recovery units with the last unit becoming effective May 1, 1968. It has been estimated by qualified reservoir engineers that these water flood programs may more than triple the primary recovery from the unitized areas.

Net Oil Production by Fields

(After Royalties)

	(Net Barrels) 1968	1967	1966	1965	1964
Virden-Roselea, Man.	148,192	150,444	108,147	99,570	93,950
Florence-Carnduff, Sask.	79,479	90,964	103,055	120,011	132,467
Swan Hills, Alberta	57,734	28,378	1,258	—	—
Crossfield, Alberta	37,947	36,682	52,792	81,688	92,521
Big Valley, Alberta	35,704	29,859	25,214	30,241	29,444
Northgate, Sask.	22,536	30,840	49,929	40,385	4,043
Virginia Hills, Alberta	17,823	9,865	11,371	10,269	—
Manyberries, Alberta	12,483	12,575	13,924	14,587	16,572
Browning-Willmar, Sask.	11,211	13,553	13,976	—	—
Wood River, Alberta	6,178	7,011	7,459	5,352	4,985
Willey, Ontario	5,195	8,967	8,276	—	—
Swalwell, Alberta	2,295	1,909	2,490	3,596	—
Other Areas	6,252	4,643	5,992	8,412	8,533
	443,029	425,690	403,883	414,111	382,515

EXPLORATION AND LAND

Ten exploratory tests were drilled on Company interest acreage during the past year. Seven of these were drilled at no cost to the Company under agreements covering the Company's northwest Alberta farmout lands. Four gas discovery wells resulted — three in Northwestern Alberta at Zama, Pert and Melvin, and one in the southwest part of the province at Strachan. The remaining six wells were abandoned as dry holes.

NORTHWESTERN ALBERTA FARMOUT LANDS (See Map, Page 7)

In January, 1965, through its acquisition of Siebens Leaseholds, the Company received title to 1,500,000 acres of Crown Petroleum and Natural Gas Reservation lands in northwestern Alberta.

The Rainbow Oil Discovery came shortly thereafter. Follow-up drilling soon indicated the presence of numerous very prolific oil pools in that area.

Industry exploratory activity was quickly concentrated in northwestern Alberta and the Company over the next few months negotiated seven agreements providing for exploratory surveys and drilling at no cost to the Company on the CEGO acreage.

Subsequently an additional agreement involving all the lands in the seven farmouts, was negotiated with Chevron Standard. This agreement provides for cash payments to CEGO of $4,000,000, plus $2,000,000 to be paid out by Chevron on CEGO'S behalf for exploratory work on the CEGO acreage beyond the farmee's commitments under the agreements.

Discovery of the Zama Oil Field in early 1966, once again followed by rapid development of numerous prolific oil pools, maintained industry interest and activity in the general area, for the most part concentrated within a radius of 10-15 miles of the Rainbow and Zama developments.

In early 1968 an oil discovery was completed in the Steen area, Twp. 122, Rge. 22, W5M, 3 miles from a 38,603 acre reservation in which the Company has a 12½% interest. The operator has not released details other than that the producing formation is Keg River, the main productive zone in the Rainbow and Zama pools. Another well is now being drilled by the same operator about 4½ miles south of the discovery. This well is approximately 4 miles north of a 33,920 acre reservation in which the Company also has a 12½% interest.

The seven agreements covering the Company acreage have now reached various stages of fulfillment as tabulated below:

Map Area	*Gross Acres*	*CEGO'S Interest*	*Net Acres*	*Miles of Seismic*	*Wells Drilled*	*Discoveries*
1.	130,123	12½ %	16,265	100	2	1
2.	178,880	12½ %	22,360	230	2	1
	99,840	25 %	24,960			
3.	220,800	25 %	55,200	365	2	—
	99,840	50 %	49,920			
4.	73,600	25 %	18,400	100	1	—
5.	99,840	25 %	24,960	—	2	—
6.	239,360	25 %	59,840	90	1	—
7.	398,025	12½ %	49,753	300	2	—
	1,540,308		321,658	1185	12	2

Each agreement area is identified on the map on page 7 with comments as follows:

AREA 1 — Farmed out to Mobil Oil

A Slave Point gas discovery, Mobil et al Pert 11-15-123-1 W5, was completed in March 1968. The well is 13 miles west and north of the Mobil Steen oil discovery. An additional detailed seismic program of 70 miles has been commenced on the three southern and westerly reservations. Drilling based on the results of this work is expected to be initiated during the next few months.

A well, Mobil CEGO Nugget 12-31-126-17 W5 drilled for stratigraphic information in the northernmost block, completed their commitment with respect to this acreage. The well was abandoned as a dry hole.

AREA 2 — Farmed out to Imperial Oil

Seismic work on the two southern reservations was followed by the drilling of a gas discovery on one reservation and a dry hole on the other. The discovery, Imperial CEGO Melvin 12-18-115-21 W5, was made in the Sulphur Point zone, and was then capped. The other well, Imperial CEGO Rapids 10-1-119-19 W5, was abandoned as a dry hole. By this seismic and drilling Imperial earned a 75% interest in these lands. CEGO interest in these two reservations is now 12½% or 22,360 net reservation acres.

CEGO'S present interest in the northern reservation is 25% or 24,960 net reservation acres. Imperial has an option to drill a well on this reservation at which time CEGO'S interest will be reduced to 12½%.

AREA 3 — Farmed out to Home-Alminex

The farmees have now drilled two dry holes. One, Home Alminex et al Meander 5-25-113-16 W5, was drilled during the report period. This program has earned the farmees 50% in 220,800 acres and they have exercised an option to drill a third well to earn a like interest in the remaining 99,840 acres.

AREA 4 — Farmed out to Ashland et al

A seismic program and a subsequent well drilled in 1966 earned the farmees 50% in this reservation. A further agreement negotiated with a third party provided for an additional seismic program of 60 miles with an option to the new farmee to drill a well for 50% interest. Exercise of this option will reduce CEGO interest to 12½%.

AREA 5 — Farmed out to Cities Service

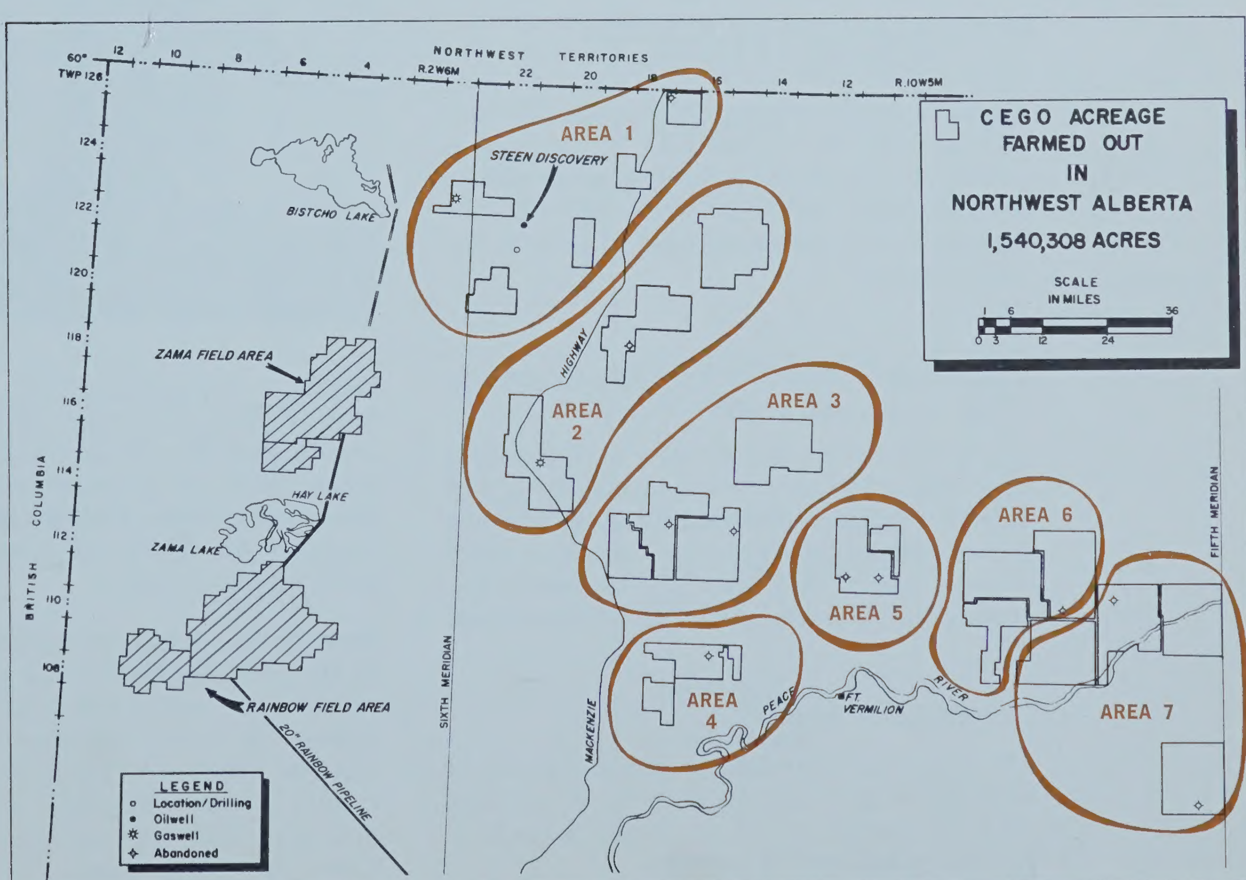
A well drilled by Cities Service in 1966 earned that company 50% interest in the lands. They subsequently farmed out their interest for a further well — Atlantic Cities Service Carl 10-9-112-11 W5, drilled during the current report period. Both wells were abandoned as dry holes.

AREA 6 — Farmed out to Canadian Superior

A seismic program was followed up with the drilling of one well during the past fiscal year to earn the farmees 50% interest in this acreage. The well, Fina et al Margaret 4-12-111-6 W5, was abandoned as a dry hole.

AREA 7 — Farmed out to Imperial Oil

Two dry holes have been drilled on this block, one, IOD IOE CEGO Rennie 3-22-111-4 W5, during the last fiscal year. Consideration is now being given to additional seismic work and subsurface investigations.



ZAMA, NORTHWESTERN ALBERTA
(Twp. 117, Rge. 5, W6M)

A Slave Point gas discovery in which CEGO'S interest is 37½%, was drilled on one of the two half-section parcels purchased within the confines of the Zama field area. The other parcel, in which CEGO'S interest is 22½%, will be drilled during the next winter work season.

STRACHAN, SOUTHWESTERN ALBERTA
(See Map, Page 9) (Twp. 37, Rge. 9, W5M)

The Company participated in a gas discovery on 7,680 lease acres of farmout lands. The well, Stampede et al Strachan, was completed as a Leduc reef sulphur gas discovery at 14,100 feet, earning CEGO a net interest of 6¼%. Two options, each covering an additional 7,680 acres, may be exercised by drilling a Leduc reef test on each option. In addition the Company participated in the purchase of a drilling reservation of 12,800 acres covering Crown lands in the immediate area of the discovery. Drilling of the first well on these lands is now underway about 1¾ miles southeast of the discovery.

HUTTON, SOUTHERN ALBERTA
(Twp. 23-26, Rge. 14-16, W4M)

A seismic option covering 87,292 acres of freehold lands has been negotiated. The program is in progress and will be followed up by the drilling of exploratory wells as warranted. CEGO'S interest is 35% which will net 17½% in the acreage earned.

FAIRACRES, NORTHWESTERN ALBERTA
(Twp. 88, Rge. 22, W5M)

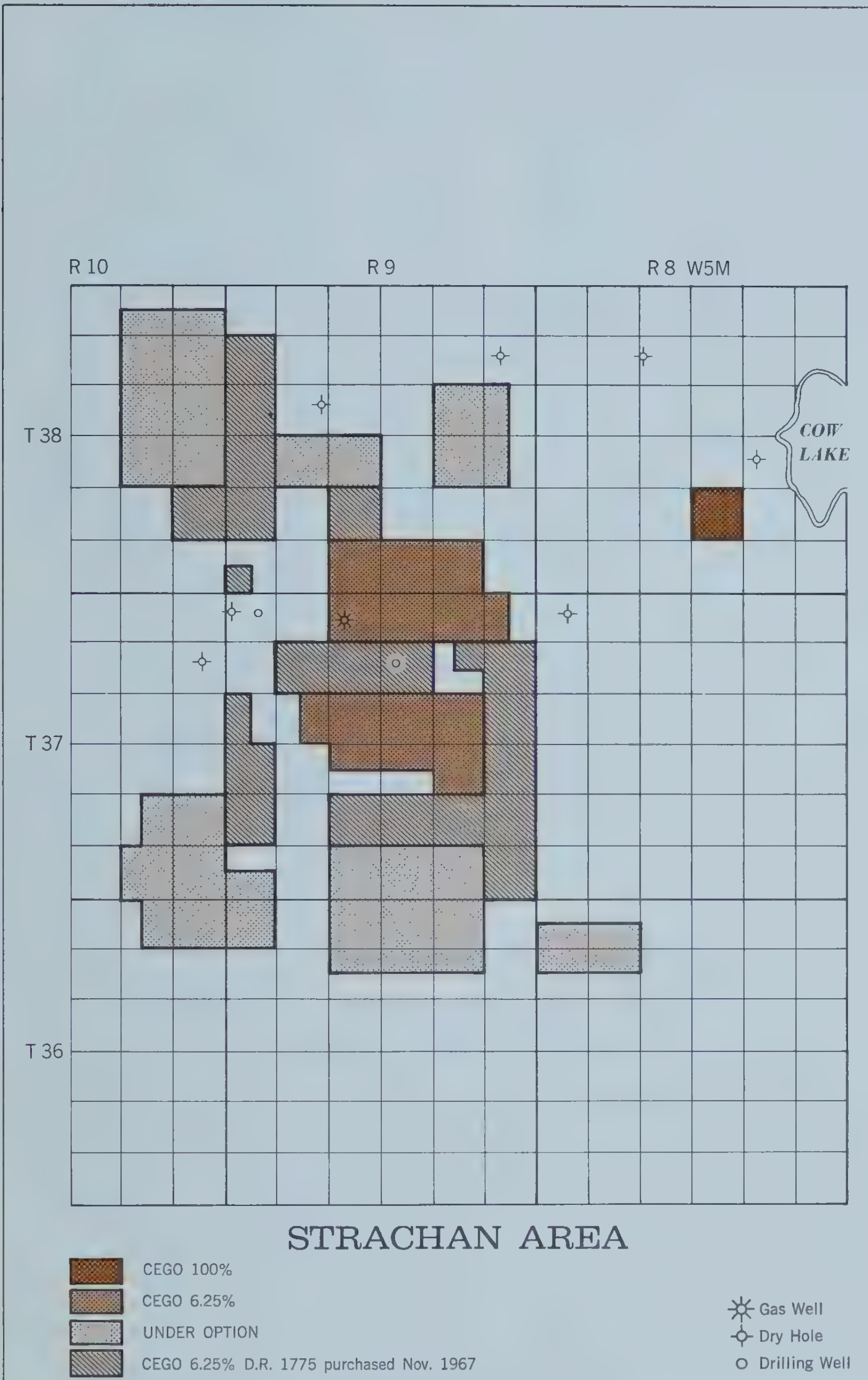
CEGO has pooled 11,520 acres of Reservation lands with a like amount of adjoining acreage of another company. The pooled acreage has been farmed out to a third party for a detailed seismic program plus a deep test. The agreement also provides for an option to drill an additional well.

GENERAL – ALBERTA

CEGO has negotiated seismic options with respect to certain of its lease acreage in the Wood River area. Optionees can earn an interest in the lands by drilling reef tests in each area.

In the Calgary area, certain of our lease holdings considered to have prospects of deep sulphur gas accumulations are currently receiving seismic and subsurface reviews. A Crossfield zone gas test is proposed and further field work is anticipated based on these reviews.

Since the year end CEGO has negotiated a farm-in in the recent Beaverhill Lake gas play northeast of the Fox Creek-Clark Lake area of central Alberta. A drilling reservation of 10,880 acres was also acquired in this area. A well, CEGO et al Chickadee 6-6-62-14 W5M, is currently drilling as a tight hole due to posting of additional Crown lands in the area.



LAND

Gross acreage decreased by 62,837 acres during the past year and net acreage decreased by 402,338 acres. Of this decrease, 387,602 net acres were in Alberta where farmees completed most of their obligations under various agreements in the northwestern Alberta farmout lands. Further acreage decreases amounting to a net 14,736 acres resulted from surrender or expiry of non-productive lands in B.C., Saskatchewan and Ontario.

New acreage was acquired in the Strachan Area in southwest Alberta, and in the Zama area.

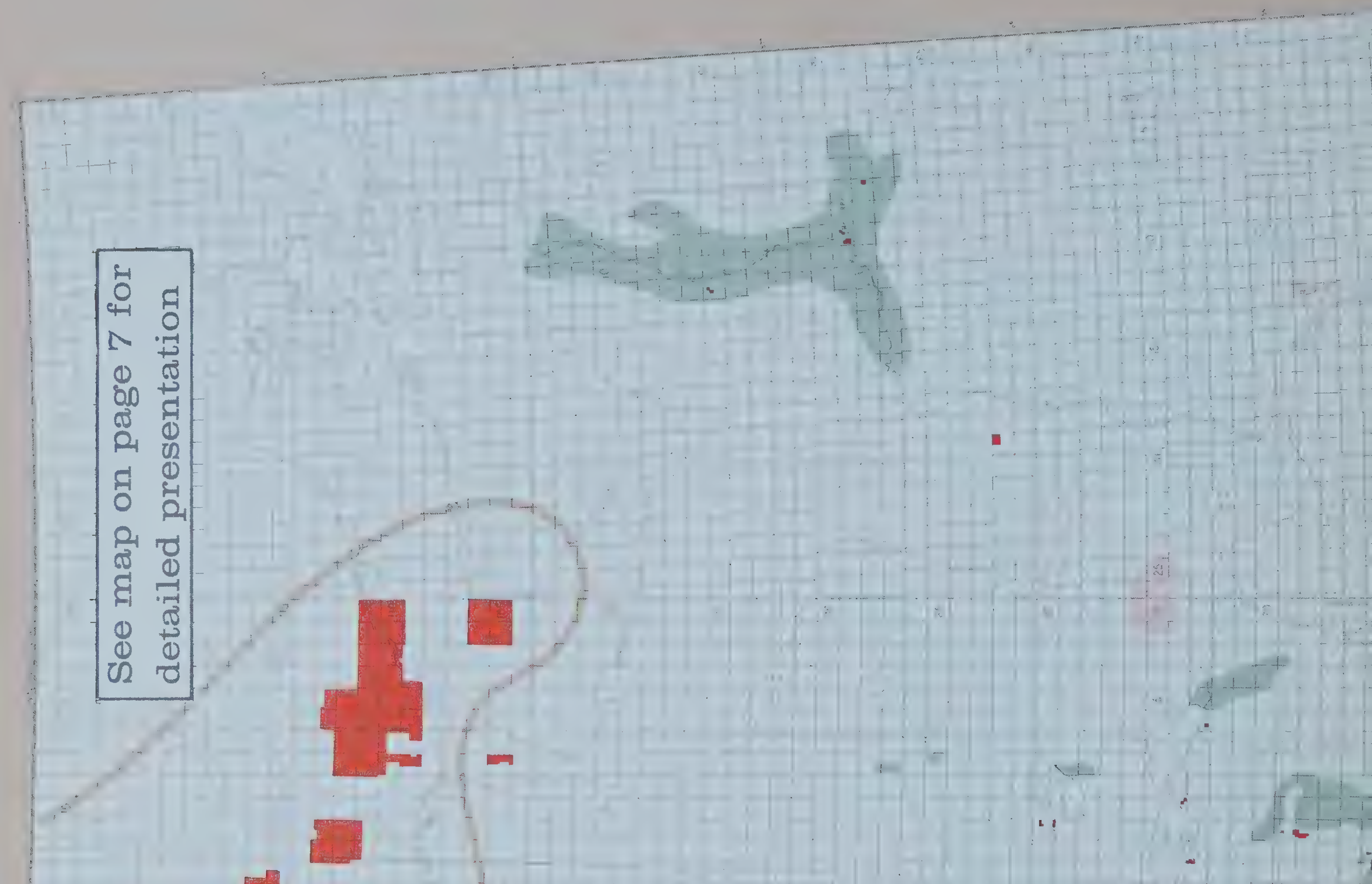
LAND AND ROYALTY HOLDINGS

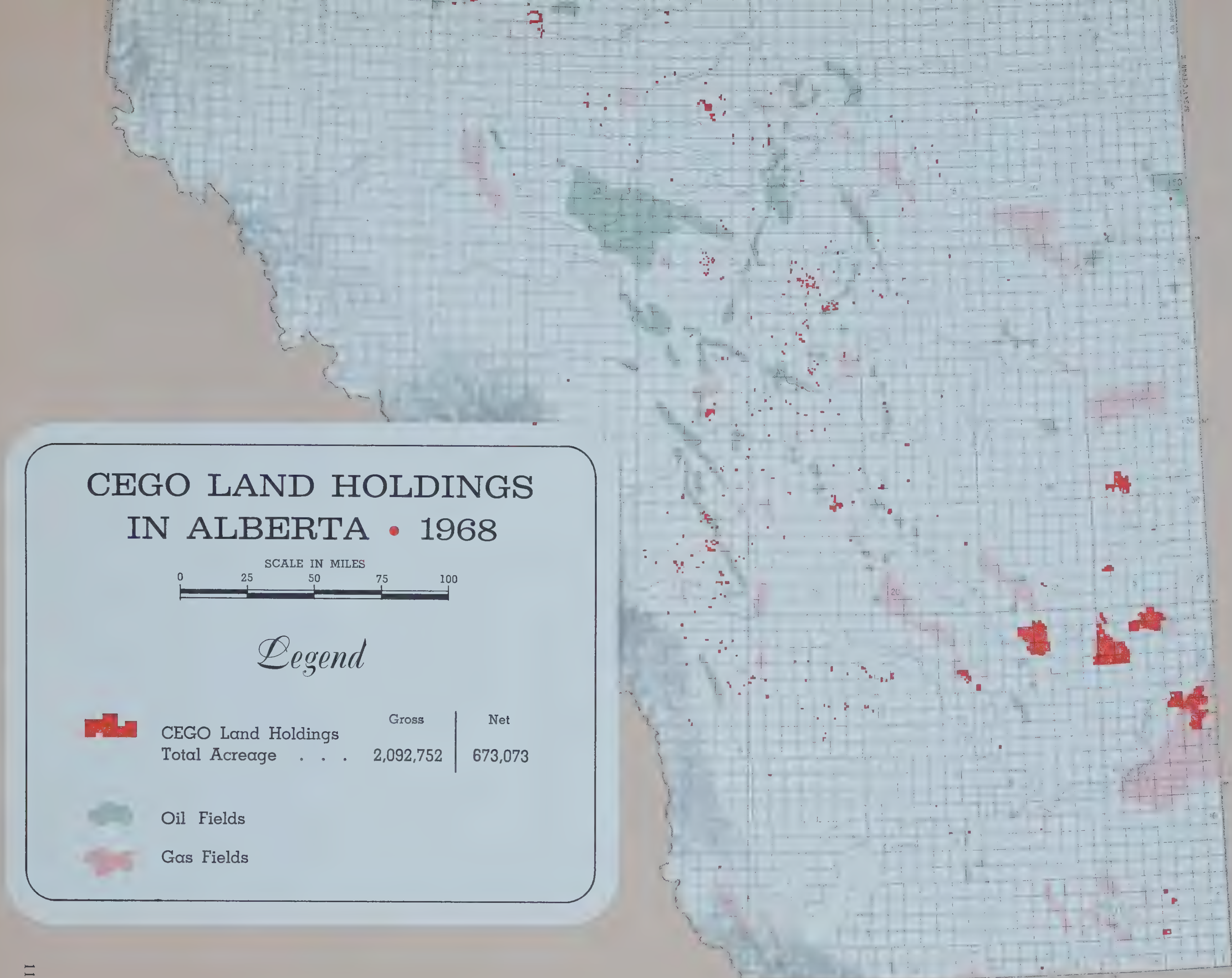
As at April 30th, 1968

	Gross	Net
Alberta	2,092,752	673,073
Saskatchewan . .	14,902	10,140
Manitoba . . .	1,370	1,370
British Columbia .	5,298	1,465
Ontario	44,224	16,482
Total land . . .	**2,158,546**	**702,530**

ROYALTY INTERESTS

	Gross Acres	Royalty Interest
Alberta	640	15%
	11,995	Varying Interests to 2½%
Total Alberta . .	**12,635**	
Saskatchewan . .	166,481	2½%
	6,600	Varying Interests
	12,360	Mineral Titles
Total Saskatchewan .	**185,441**	
Manitoba	800	5%
	2,963	Varying Interests
	4,410	½ Mineral Titles
Total Manitoba . .	**8,173**	
Northwest Territories	**84,549**	0.34%
Ontario	1,023	2½%
	590	5%
Total Ontario . .	**1,613**	
Total Royalty and Mineral Interests . . .	**292,411**	


See map on page 7 for
detailed presentation


CEGO LAND HOLDINGS IN ALBERTA • 1968
SCALE IN MILES
0 25 50 75 100
Legend
CEGO Land Holdings Total Acreage . . . Gross 2,092,752 Net 673,073
Oil Fields
Gas Fields

Consolidated Statement of
SOURCE AND DISPOSITION OF FUNDS

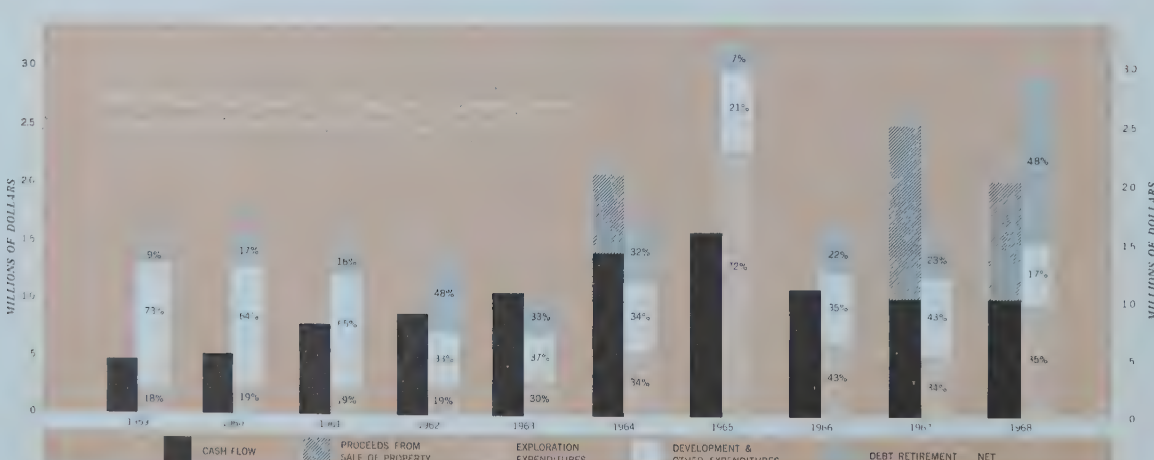
Year ended April 30, 1968
(with comparative figures for 1967)

		1968		1967
SOURCE OF FUNDS:				
Cash flow from operations (see note below)		$1,024,121		$1,018,319
Proceeds from sale of properties		1,000,000		1,572,000
Proceeds from sale of capital stock		417,929		231,781
Reservation deposits refunded and other receipts		–		72,460
		2,442,050		2,894,560
Reduction (increase) in working capital		468,801		(1,368,208)
TOTAL FUNDS EMPLOYED		$2,910,851		$1,526,352
DISPOSITION OF FUNDS:				
Exploration:				
Land acquisition and exploration surveys	30%	$ 866,072	8%	$ 116,807
Wildcat and stepout drilling	5	142,813	26	398,684
Development and Other Expenditures:				
Drilling and equipment of wells	10	303,572	39	594,392
Gas gathering systems, plants and miscellaneous (net)	7	190,833	4	58,669
FUNDS INVESTED IN THE COMPANY	52	1,503,290	77	1,168,552
Long-Term Debt Reduction:				
Companies' sinking fund debentures	11	326,000	16	251,500
Bank loans and 6% notes payable	37	1,081,561	7	106,300
TOTAL FUNDS USED	100%	$2,910,851	100%	$1,526,352

NOTE:

Net earnings per statement of earnings	$ 299,762
Add:	
Provisions and bond discount not involving the outlay of cash	566,742
Dry hole costs included in the disposition of funds and abandonments	157,617
Cash flow from operations as shown above	$1,024,121

See accompanying notes to financial statements.



Consolidated Statement of
EARNINGS AND RETAINED EARNINGS

Year ended April 30, 1968
(with comparative figures for 1967)

		1968	1967
OPERATING INCOME:			
Crude oil and natural gas sales, less royalties		$2,108,033	$2,089,554
Royalty income		182,324	169,793
		2,290,357	2,259,347
Less production expenses		538,366	498,308
		1,751,991	1,761,039
Deduct administrative and general expenses, net		281,483	263,952
Net operating profit before depletion and depreciation		1,470,508	1,497,087
OTHER CHARGES, NET:			
Share transfer and other shareholder expenses	$109,827		124,115
Acreage rentals on non-producing properties	190,035		175,324
Interest on debentures	52,548		69,773
Interest, other	120,607		140,451
Amortization of bond discount	10,000		10,000
Dry holes and abandoned properties	157,617		514,884
	640,634		1,034,547
Deduct miscellaneous income	26,630		30,895
		614,004	1,003,652
Net earnings before the following provisions		856,504	493,435
PROVISIONS:			
Depletion and amortization	313,632		329,738
Depreciation	243,110		262,122
		556,742	591,860
Net earnings (loss) before non-recurring gain		299,762	(98,425)
NON-RECURRING gain on disposal of property, net		–	3,592,684
Net earnings (Note 7)		299,762	3,494,259
RETAINED EARNINGS at beginning of year		4,228,298	734,039
RETAINED EARNINGS at end of year		$4,528,060	$4,228,298

See accompanying notes to financial statements.

CANADIAN EXPORT GAS & OIL LTD. AND SUBSIDIARIES CONSOLID

(with comparative figures for 1967)

ASSETS

		1968	1967
CURRENT ASSETS:			
Cash		$ 110,332	189,563
Accounts receivable		1,553,123	2,101,428
Marketable securities, at cost (quoted market value $232,710; 1967 $259,888)		229,447	236,746
Inventories of equipment, at the lower of cost or net realizable value		59,710	52,933
Total current assets		1,952,612	2,580,670
ACCOUNT RECEIVABLE not due within one year		1,500,000	2,500,000
REFUNDABLE DEPOSITS AND INVESTMENTS		103,705	96,205
FIXED ASSETS, at cost:			
Productive properties and equipment	$11,667,114		11,082,593
Other assets	108,730		113,050
	11,775,844		11,195,643
Less accumulated depreciation, depletion and amortization	5,579,829		5,155,957
	6,196,015		6,039,686
Undeveloped properties	2,725,643		2,072,070
		8,921,658	8,111,756
DEFERRED CHARGES (unamortized):			
Exploration and preproduction expenditures (Note 1)	1,661,905		1,690,376
Bond discount	28,333		38,333
		1,690,238	1,728,709
		$14,168,213	$15,017,340

See accompanying notes to financial statements.

TED BALANCE SHEET AT APRIL 30, 1968

LIABILITIES

		1968	1967
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 447,549	551,894
Accrued debenture interest		16,593	22,415
Payments required for debenture sinking funds (Note 4)		142,553	191,643
Bank loans due within one year (secured) (Note 2)		481,200	481,200
6% Notes payable due within one year (secured) (Note 3)		100,000	100,000
Total current liabilities		1,187,895	1,347,152
BANK LOANS, net of current portion (secured) (Note 2)		479,700	1,461,261
6% NOTES PAYABLE, net of current portion (secured) (Note 3)		100,000	200,000
FUNDED DEBT (Note 4)		707,000	1,033,000
SHAREHOLDERS' EQUITY:			
Capital stock (Notes 4 and 5): Shares of a par value of 16⅔ cents each. Authorized 12,000,000 shares; issued 8,059,944 shares (1967 7,919,769 shares)	$1,343,324		1,319,962
Contributed surplus	5,822,234		5,427,667
	7,165,558		6,747,629
Retained earnings	4,528,060		4,228,298
		11,693,618	10,975,927
		$14,168,213	$15,017,340

Approved on behalf of the Board:

AUGUST F. BECK, Director

FRANCIS E. RINEHART, Director

This is the balance sheet referred to in the report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated June 30, 1968.

NOTES TO FINANCIAL STATEMENTS

April 30, 1968

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

From the date of incorporation, March 22, 1954, to June 30, 1957 the activities of the subsidiary company, Canex Gas Ltd., were in an exploratory and development stage and all exploration and preproduction expenditures less miscellaneous income received were deferred and are being amortized by a unit of production method based on the estimated recoverable gas reserves of the company at June 30, 1957. Capital expenditures of Canex Gas Ltd. are included in the accompanying consolidated balance sheet in the appropriate classifications under fixed assets.

2. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of $481,200 will be repaid within the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

3. 6% NOTES PAYABLE:

The 6% notes payable in the amount of $200,000 are payable in the amount of $100,000 on February 1 in each of the years 1969 and 1970. Certain shares of a wholly owned subsidiary company are pledged as security for these notes.

4. FUNDED DEBT:

Funded debt consists of 5% Convertible Sinking Fund Debentures, Series A, of which the parent company has $391,500 principal amount outstanding, maturing December 1, 1970, and Canex Gas Ltd. has $315,500 principal amount outstanding, maturing July 15, 1971. The funded debt of $707,000 is net of $43,947 held in the sinking fund account and $142,553 included in current liabilities.

Series A debentures of the parent company are convertible into shares of the capital stock of the company at the option of the holders at the rate of 33 shares per $500 debenture until their maturity date. Series A debentures of Canex Gas Ltd. are convertible into shares of that company at the rate of 40 shares per $500 debenture until their maturity date. During the year ended April 30, 1968 18,950 shares of Canex Gas Ltd. were issued upon the conversion of debentures.

The Series A debentures are redeemable out of the sinking funds and otherwise than out of the sinking funds at premiums varying with the date of redemption.

5. CAPITAL STOCK:

During the year the company issued 92,800 shares of its capital stock to seven employees upon the exercise of restricted stock options granted in prior years and issued 47,375 shares of its capital stock under an offer it had made to accept shares of Canex Gas Ltd. that may be issued as a result of converting Canex Gas Ltd. debentures, and issue 2½ company shares for each Canex Gas Ltd. share tendered. Details of shares issued are as follows:

Number of shares		Allocation of Consideration: Total	Capital stock	Contributed surplus
3,800	to employees for $3.70 cash per share	$ 14,060	633	13,427
85,000	to employees for $2.25 cash per share	191,250	14,167	177,083
4,000	to employees for $1.53 cash per share	6,119	666	5,453
92,800		211,429	15,466	195,963
47,375	for 18,950 shares of Canex Gas Ltd. which had been issued on the conversion of $206,500 principal amount of Canex Gas Ltd. debentures . . .	206,500	7,896	198,604
140,175		$417,929	23,362	394,567

NOTES TO FINANCIAL STATEMENTS – Continued

Also during the year the company granted restricted stock options to four employees to purchase a total of 18,000 shares of its capital stock at $7.15 per share, exercisable one-fifth each year commencing February 1, 1969 on a cumulative basis.

The company has reserved the following shares of its capital stock:

66,100	shares in respect of the offer to accept shares of Canex Gas Ltd.
38,412	shares for exercise of the conversion privilege attaching to the company's 5% Convertible Sinking Fund Debentures.
49,200	shares for stock options to employees.
153,712	

The following restricted stock options granted to eight employees were outstanding at April 30, 1968:

	Expiry date
5,000 shares at $1.53 per share (exercisable one-fifth each year commencing February 10, 1966 on a cumulative basis)	June 8, 1970
26,200 shares at $3.70 per share (exercisable one-fifth each year commencing August 23, 1967 on a cumulative basis)	December 20, 1971
18,000 shares at $7.15 per share (exercisable one-fifth each year commencing February 1, 1969 on a cumulative basis)	May 31, 1973

The trust indenture securing the company's 5% Convertible Sinking Fund Debentures, Series A, places a restriction upon the payment of dividends and upon the redemption or repayment of capital stock, unless, after giving effect thereto, the consolidated net current assets will be at least equal to 75% of the aggregate principal amount of funded obligations of the company then outstanding.

6. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS:

Remuneration during the year to directors and senior officers amounted to $121,438.

7. INCOME TAXES:

No provision has been made for income taxes for the year ended April 30, 1968 as each of the companies has drilling and exploration expenses which may, for income tax purposes, be applied against the current earnings so that no income taxes are payable.

The drilling and exploration expenses which may, for income tax purposes, be applied against earnings in future years are estimated to amount, in the aggregate, to $4,260,000 at April 30, 1968. An account receivable of $2,500,000 arising from the sale of property will be included in income for tax purposes as received.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and Subsidiaries as of April 30, 1968 and the consolidated statements of earnings and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1968 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
June 28, 1968

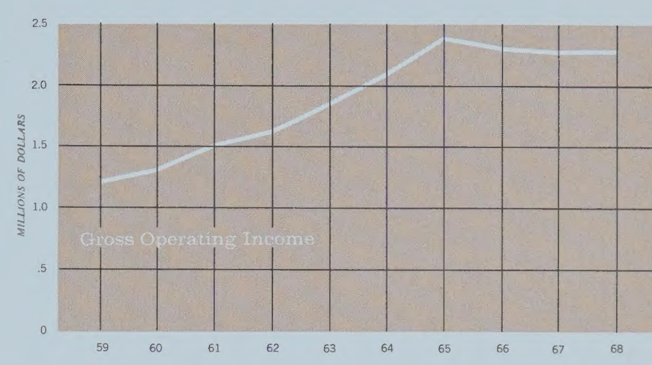
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

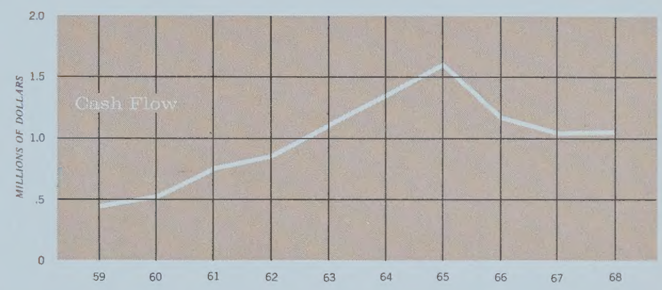
TEN YEAR STATISTICAL SUMMARY / 59-68

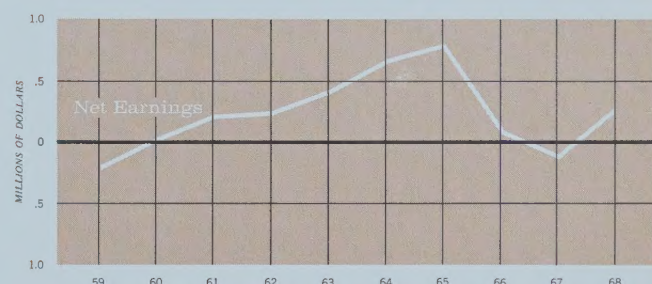
(Years ended April 30)

		1968	1967	1966	1965	1964
PRODUCTION:						
Oil—Annual	Barrels	443,029	425,690	403,883	414,111	382,515
Daily Average	Barrels	1,214	1,166	1,107	1,135	1,048
Gas—Annual	Billion Cubic Feet	6.562	6.867	7.945	8.710	7.466
Daily Average	Million Cubic Feet	18	19	22	24	20
EARNINGS:						
Gross operating income, less royalties paid	$	2,290,357	2,259,347	2,336,721	2,397,468	2,101,979
Net operating profit before depletion and depreciation	$	1,470,508	1,497,087	1,595,211	1,824,217	1,569,039
Cash flow from operations	$	1,024,121	1,018,319	1,172,273	1,588,082	1,395,376
Net earnings before depletion and depreciation	$	856,504	493,435	664,345	1,343,831	1,180,079
Net earnings (loss)	$	299,762	(98,425)	26,455	817,689	677,988
OPERATING EXPENSES:						
Production expenses	$	538,366	498,308	518,189	437,688	400,836
Administrative and general expenses	$	281,483	263,952	223,321	135,563	132,104
Total	$	819,849	762,260	741,510	573,251	532,940
CAPITAL STRUCTURE:						
Shareholders' equity	$	11,693,618	10,975,927	7,249,887	7,281,418	6,463,729
Funded debt	$	707,000	1,033,000	1,284,500	1,534,500	1,784,500
Bank and other loans	$	579,700	1,661,261	1,767,561	1,667,161	226,000
(Working capital) or deficit	$	(764,717)	(1,233,518)	134,690	195,798	27,848
Total capital invested	$	12,215,601	12,436,670	10,436,638	10,678,877	8,502,077
Number of shares outstanding		8,059,944	7,919,769	7,828,394	7,828,394	7,828,394
SIGNIFICANT RATIOS:						
Ratio of net earnings to gross earnings	%	13	—	1	34	32
Cash flow return on capital invested	%	8	8	11	15	16
Net earnings return on capital invested	%	3	—	—	8	8
Ratio of shareholders' equity to total capital invested	%	96	88	69	68	76
Ratio of operating expenses to gross earnings	%	36	34	32	24	25
Net book value of assets	Per share	$1.52	$1.57	$1.33	$1.36	$1.09
Cash flow	Per share	13¢	13¢	15¢	20¢	18¢
Net earnings	Per share	4¢	—	—	10¢	9¢
WELLS:						
Oil wells (net)		73	73	70	66	61
Gas wells (net)		66	65	87	77	75
Royalty interest wells (gross)		223	220	216	214	214
LAND HOLDINGS: (including royalty acreage)						
Gross acreage		2,158,546	2,221,383	2,698,346	2,831,728	893,331
Net acreage		702,530	1,104,868	2,042,318	2,227,392	306,901
OWNERS AND EMPLOYEES:						
Number of shareholders		8,992	8,586	7,790	5,022	5,250
Number of employees		33	33	37	38	32

1963	1962	1961	1960	1959
414,404	360,027	381,717	380,078	358,816
1,135	986	1,046	1,041	983
5.752	5.523	4.397	2.917	1.926
16	15	12	8	5
,915,433	1,693,754	1,538,581	1,327,713	1,273,901
,338,239	1,112,679	1,077,870	804,679	771,575
,126,147	883,660	792,359	524,987	471,069
990,145	782,814	703,635	435,498	215,142
487,516	266,601	222,658	28,747	(211,258)
418,107	377,353	303,212	307,087	208,936
159,087	203,722	157,499	215,947	291,904
577,194	581,075	460,711	523,034	500,840
,243,282	4,755,766	4,175,977	3,466,287	2,798,476
,032,745	2,279,150	2,509,500	2,784,500	3,071,500
536,711	712,111	1,136,211	325,800	429,000
384,860	417,561	428,051	1,080,986	627,013
,197,598	8,164,588	8,249,739	7,657,573	6,925,989
,828,394	7,828,394	7,628,394	7,428,394	7,166,453
25	16	14	2	—
14	11	10	7	7
6	3	3	—	—
64	58	51	45	40
30	34	30	39	39
$1.05	$1.04	$1.08	$1.03	97¢
14¢	11¢	10¢	7¢	6¢
6¢	3¢	3¢	—	—
61	64	63	65	62
77	73	68	51	38
205	200	166	179	167
,335,811	4,339,891	4,373,945	4,914,210	5,160,108
324,128	322,845	316,645	424,306	426,989
5,521	5,413	5,024	4,879	4,642
31	35	41	38	37







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